



TO: Mayor and City Council

FROM: Steve Groom, Finance

DATE: November 25, 2019

RE: Levy Lid Lift Resolution background

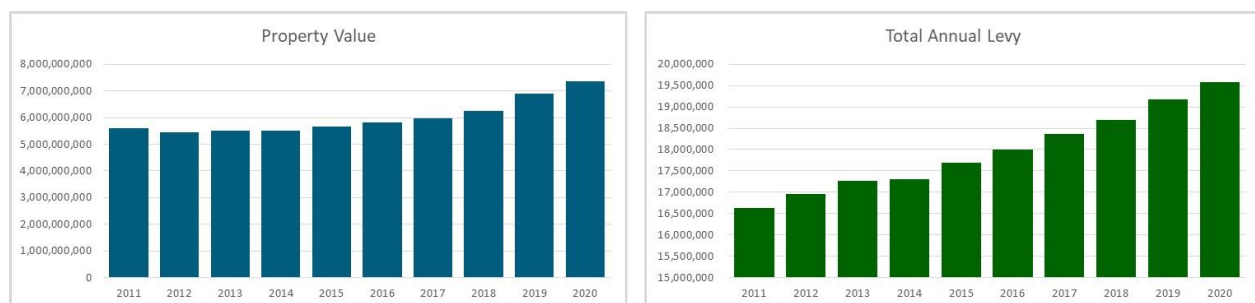
In response to council direction to seek voter approval, this is to recommend a resolution specific to the current economics of Yakima, as discussed during the 2020 budget study sessions. The Levy Lid Lift has presented an increasing opportunity to restore service levels, addressing some of the city's financial belt-tightening challenges, by having a conversation with taxpayers through the process of a lid lift ballot initiative.

This is to accompany, and provide a rationale for, a proposed resolution.

**Current capacity.** Staff provided an annual update to council during the budget process using the Yakima County Tax Assessor's annual September valuations. In September 2018, valuations that showed there was \$2.1 million available; in September 2019 this grew to \$3.0 million in property tax levy capacity as summarized in the following two charts, presented annually:

	2018 Valuation	2018 Levy	2019 Valuation	2019 Levy	2019 Valuation	2019 Levy	2020 Valuation	2020 Levy
Beginning	5,957,828,341	\$ 18,367,991	6,241,111,833	18,686,841	6,241,111,833	\$ 18,686,841	6,901,338,691	\$ 19,418,144
Add:								
Existing	235,274,954	\$ 183,680	544,028,661	186,868	544,028,661	\$ 186,868	369,331,427	\$ 194,181
New Constr	48,008,538	\$ 135,170	98,586,215	295,182	98,586,215	\$ 295,182	97,446,348	\$ 274,183
Annexation	-	\$ -	4,681,000	14,016	4,681,000	\$ 14,016	-	\$ -
Total	6,241,111,833	\$ 18,686,841	6,888,407,709	\$ 19,182,907	6,888,407,709	\$ 19,182,907	7,368,116,466	\$ 19,886,508
		\$ 2.99		\$ 2.78		\$ 2.78		\$ 2.70
LLL capacity		\$ 661,000		\$ 2,171,000		\$ 2,171,000		\$ 2,955,000

**10-year data.** What these charts show is that property valuations have increased at a greater rate than property tax levy due to the legislated 1% cap on existing properties. Shown another way, on a 10-year trend basis, it is clear that the drop in levy rate is due to valuations increasing at a greater pace than the annual levy:



This revenue is such a large component of general fund services' funding that the effect of the 1% property tax increase cap on the city budget has been to reduce the general fund's ability to keep pace with expenses.

**Lid Lift options.** In considering a lid lift, the factors to consider involve the purposes that the city would be trying to accomplish. There are different lid lift mechanisms available – combinations of single-year and multi-year, temporary and permanent.

**Temporary** lid lifts would be for a one-time purpose. Were the city only desiring to catch up the General Fund's fund balance, that option could be considered, however Yakima has other factors to consider. Temporary lid lifts, both single-year and multi-year, reverts back to what it would have been if the lid lift had not been exercised. Staff does not recommend either of these.

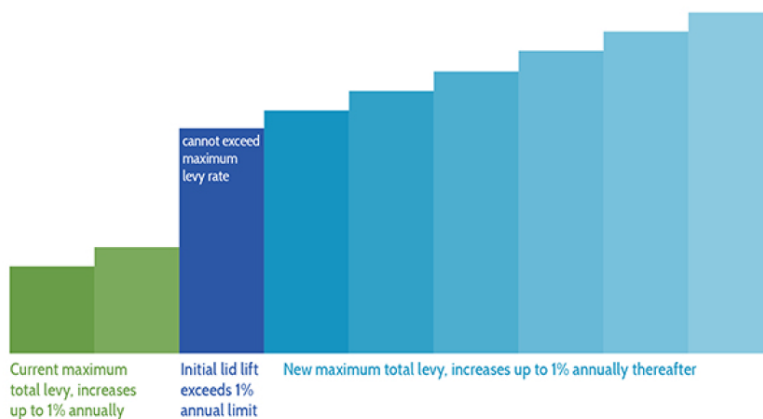
**Permanent** lid lifts serve the purpose of resetting the rate on a go-forward basis, which does fit Yakima's increasing squeeze caused by mounting expenses. The salary and benefits increases in recent years have outpaced revenues, and are likely to continue to do so. Vehicle purchases have been deferred which has created both a backlog and a trajectory that fails to meet on-going and future replacements. General liability insurance is a material expense that has outpaced revenues as well. For these reasons, a permanent lid lift that would reset revenues, and remain at that level subject to the 1% cap going forward, fit the purposes that fit the demand for city services and the price of delivery of those services. MRSC's guidance on lid lifts illustrates it this way:

### Permanent Single-Year Lid Lifts

With a permanent single-year lid lift, the levy lid bumps up more than 1% in the first year, and then that amount is used to calculate all future 101% levy limitations. The measure never expires and the levy lid never reverts. However, future annual increases may not exceed 1% without going to the voters for another lid lift.

See below for a conceptual example

Single Year (One-Bump) Levy Lid Lift – Permanent  
RCW 84.55.050(1)

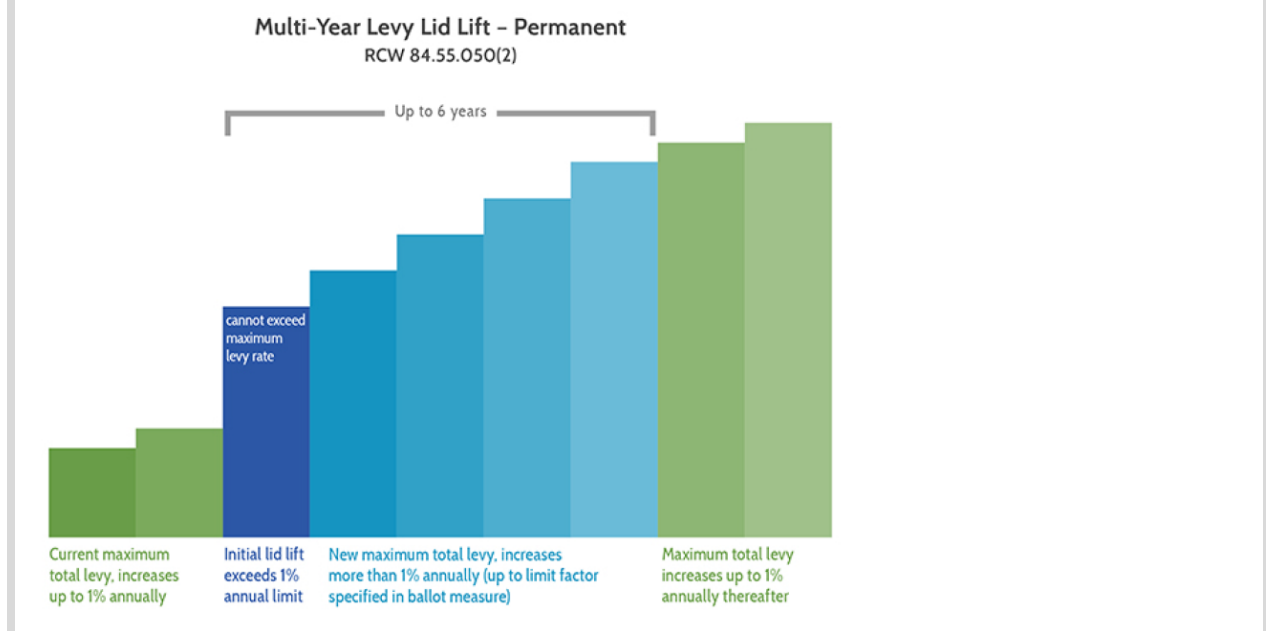


Alternatively, a permanent multi-year lid lift provides a mechanism for lifts of more than 1% each year for up to six years. It does not revert to previous level and it continues into the future at that level subject to the 1% cap going forward afterwards. MRSC's guidance on lid lifts illustrates it this way:

### Permanent Multi-Year Lid Lifts

Similarly, with a permanent multi-year lid lift the levy lid bumps up more than 1% each year (subject to the limit factor) for up to six years. However, the lid lift does not revert and the maximum levy is then used as the base to calculate all future 1% levy limitations.

See below for a conceptual example



Because the nature of the circumstances of the City's need to catch up on General Fund reserves, vehicle replacement and staffing positions that have been frozen or eliminated in the past, staff recommends a Single Year lid lift to catch up and reset the trajectory of the levy.

**Exemptions.** Should city council so choose, RCW 84.36.384 authorizes exemption from the tax increase for senior citizens, disabled veterans, and other people with disabilities as defined in RCW 84.36.381, therefore exemption language may or may not be proposed as a part of the proposition. Section 4 deleted at the discretion of city council.

FAQ: What could an unrestricted General Fund property tax increase restore?

As already described, all services provided by the General Fund have been systematically squeezed, meaning that new revenue provided by a lid lift would not be available for new services, but rather to restore or maintain existing services.

A levy lid lift could contribute to sustaining service levels related to many general fund services and support functions that perennially plague the city's budgetary ability to address:

- Fiscal sustainability, **fund balance improvement**, bond rating stabilization;
- Keeping pace with Collective Bargaining Agreement **salary and benefit increases**;
- **Public safety services**, such as crime prevention, police patrol and investigations, fire suppression and prevention, emergency management and preparedness;
- **Parks & recreation services**, such as parks maintenance, community center operations, senior recreation services, and special events;
- **Homelessness issues**; public safety priorities require dangerous, violent, urgent and immediate issues take first priority;
- **Street maintenance**, snow and ice removal; February 2019 snow exceeded available budget, necessitating deferral of street chip-seal projects; the November passage of I-976 further reduced funding for street projects by an estimated \$1.6 million annually;
- **Vehicle and equipment replacement** funding; deferred replacements in Police, Streets and Parks have been required due to General Fund resource limitations;
- **Code compliance** services, planning, graffiti and illegal dumping mitigation.

While these are the perennial General Fund services that City Council weighs annually in the annual budget process, each budget would still be the city council's primary control point for allocating limited resources following a levy lid lift and prioritizing specific needs and demands.

Staff respectfully submits the attached resolution, that contains language appropriate to fund existing service levels, restore the General Fund's fund balance, and provide for funding replacement of existing vehicles and the maintenance and replacement of Streets and Parks capital expenditures.

### Background - Property Tax Levy RCWs

City of Yakima is effectively limited to a cap of \$3.10 because:

- The maximum regular property tax levy rate for most cities is \$3.375/\$1,000 assessed valuation (AV).
- City of Yakima has a Firemen's Pension Fund so levies an additional \$0.225/\$1,000 AV. (RCW 41.16.06)
- City of Yakima has a library district which takes \$0.50. (RCW 27.12.05)
- Nov. 2001 Initiative 747 constrained the allowable levy increase to the lesser of inflation or 1% (RCW 84.55.005)